

CONFERENCE CALL

PREPARED REMARKS FROM:
Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated
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FOURTH QUARTER AND FULL YEAR 2024 FINANCIAL RESULTS CONFERENCE CALL
FEBRUARY 5, 2025
PREPARED REMARKS

DISCLAIMER

Certain statements made in these prepared remarks are “forward-looking statements” within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and involve a high degree of risk and uncertainty. Forward-looking statements include statements regarding our anticipated financial and operating performance. All statements in this release, other than those setting forth strictly historical information, are forward-looking statements. Forward-looking statements are not guarantees of future performance and actual results might differ materially. In particular, we make no assurances that the proposed revenue scenarios outlined in our financial guidance will be achieved. Additional examples of forward-looking statements in these prepared remarks include, without limitation, statements regarding our ability to attract, train and retain qualified staffing consultants, the availability of qualified contract professionals, management of our growth, continued performance and improvement of our enterprise-wide information systems, our ability to successfully adapt, integrate, and leverage developing technologies, including generative AI, our ability to manage our litigation matters, the successful integration of our acquired subsidiaries and other risks detailed from time to time in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC on February 23, 2024. We specifically disclaim any intention or duty to update any forward-looking statements contained in these prepared remarks.

KIMBERLY ESTERKIN
Vice President Investor Relations:

Good afternoon. Thank you for joining us today for ASGN's fourth quarter and full year 2024 conference call. With me are Ted Hanson, Chief Executive Officer, Rand Blazer, President, and Marie Perry, Chief Financial Officer.

Before we get started, I would like to remind everyone that our commentary contains forward-looking statements. Although we believe these statements are reasonable, they are subject to risks and uncertainties, and as such, our actual results could differ materially from those statements. Certain of these risks and uncertainties are described in today’s press release and in our SEC filings. We do not assume any obligation to update statements made on this call.

For your convenience, our prepared remarks and supplemental materials can be found in the Investor Relations' section of our website at investors.asgn.com.

Please also note that on this call, we will be referencing certain non-GAAP measures, such as Adjusted EBITDA, Adjusted Net Income, and Free Cash Flow. These non-GAAP measures are intended to supplement the comparable GAAP measures. Reconciliations between GAAP and non-GAAP measures are included in today's press release.

I will now turn the call over to Ted Hanson, Chief Executive Officer.

THEODORE S. HANSON
Chief Executive Officer:

Thank you, Kim, and thank you for joining ASGN's fourth quarter and full year 2024 earnings call.

Steady Demand, Increasing Business Optimism

Throughout 2024, we remained committed to advancing ASGN's business towards higher-end, high-value IT consulting solutions. This commitment is reflected in the growth of our IT consulting revenues. For the year, IT consulting revenues from both the commercial and government sectors comprised approximately 58 percent of total revenues, up from roughly 53 percent in the prior year period.

While Q4 revenue was slightly below expectations, the highlight of the quarter was once again Gross and Adjusted EBITDA margins which exceeded our expectations. Despite IT budgets remaining constrained, our pipeline of work has continued to expand. Double-digit year-over-year growth in commercial consulting bookings in the fourth quarter underscores our participation in our clients' long-term IT strategies.

As we transition into 2025, we are beginning to see an improvement in business confidence, although we believe a turnaround in IT spending has yet to materialize. To meet the anticipated growing demand for IT services, we remain closely aligned with our enterprise and federal government customers, understanding their strategic needs and positioning our solutions accordingly in key areas such as AI, cybersecurity, and data.

Maintaining deep customer relationships with the Fortune 1000 and key defense and intelligence agencies is essential to ASGN's market differentiation. Also important to driving the underpinnings of our long-term strategy is the depth and breadth of our leadership team. As part of a planned succession, we recently announced that our President Rand Blazer will transition to the role of Executive Vice Chairman this March. I'll elaborate on Rand's continued commitment to our Company, as well as welcome our newest executive team addition, Shiv Iyer, who will be joining us from Accenture, later in today's call.

Beyond a forward-thinking leadership team, successful tuck-in acquisitions are core to enhancing our organic consulting growth. We continued our M&A efforts in 2025, announcing just yesterday our definitive agreement to acquire TopBloc, a preferred certified Workday Services Partner. I'll discuss the strategy behind the TopBloc acquisition shortly, but first, let's turn to our segment performance for the quarter.

Q4 2024 Segment Performance

Commercial Segment – Innovative IT Solutions Bolstered by Key Technology Partnerships

Our Commercial Segment services Fortune 1000 and large mid-market companies. Revenues for the segment were again driven by growth in our consulting business, which improved 6.0 percent year-over-year. Consulting bookings of $348.2 million put our book-to-bill at 1.2 times for the quarter and 1.1 times on a trailing twelve-month basis. Although consulting bookings remained weighted towards renewals, a reflection of our strong client relationships, our new work continues to grow each quarter.

From an industry perspective, growth for the quarter was led by our TMT and Consumer & Industrial verticals. The TMT vertical improved mid-single digits compared to the fourth quarter of 2023 and also improved low single-digits for the full year. Improvement in TMT revenues were led by growth in e-Commerce and Media & Entertainment accounts. Consumer & Industrial accounts improved low single-digits as compared to the prior year quarter, driven by double-digit improvements in Utilities and Materials accounts, along with mid-single-digit growth in Consumer Staples and Consumer Discretionary accounts. While the Financial Services vertical declined year-over-year, within the vertical, Big Banks, Fintech, and Diversified Financials all improved low single-digits on a billable day-adjusted basis. As one of the largest spenders on IT, this improvement within the Financial Services vertical, especially amongst our Big Banking clients, is a move in the right direction.

On a sequential basis, adjusting for the 2.5 fewer billable days in the quarter, Consumer & Industrial accounts improved low single-digits, with growth in the Utility, Consumer Staples, Consumer Discretionary, and Industrials sectors. We also achieved low single-digit growth in the Healthcare vertical, with advancements in both Payer and Provider accounts.

Consulting engagements for the fourth quarter focused on our cloud and data infrastructure, cybersecurity, and AI solution capabilities. Let me provide a few noteworthy examples.

In the fourth quarter, a prominent freight and transportation client engaged ASGN to migrate their legacy on-premise data management center to the cloud. Our team of data experts conducted a comprehensive assessment of our client's 25-year-old system, developed architectural roadmaps, and consulted our client on their migration to AWS Cloud. Once fully migrated to AWS, we will proceed to modernize our client's architecture by adopting cloud-native practices that provide enhanced agility, scalability, and a robust foundation to leverage advanced services, such as data analytics and AI.

With vast amounts of data moving to the cloud, there is an increasing need to protect sensitive enterprise information. As noted last quarter, we continue to fortify our Governance, Risk, and Compliance, or GRC, Practice, which leverages our commercial and government cybersecurity resources to support our commercial industry clients. In the fourth quarter, our GRC consultants partnered with a medical technology company to help them achieve HITRUST Certification. Our client was looking to achieve this cybersecurity certification, which combines regulatory and industry standards, by year end. Our combined commercial and government team seamlessly collaborated with our client, quickly developing the domain knowledge needed to achieve the HITRUST Certification and prompting our client to extend our engagement into 2025 for ongoing advisory support.

Also, during the quarter, we were engaged by a technology company to establish a Center of Excellence to streamline the onboarding of various retailers onto their platform. By identifying onboarding commonalities, developing best practices, and addressing procedural anomalies, our solution architects collaborated with our client to create a gold standard for retailer implementations. As this project continues, we will create more automations around the monitoring, compliance, and securing of sensitive data. Importantly, as the creator of this Center of Excellence, we've become an integral part of our client's Professional Services organization, assuming responsibility for the onboarding of their retail partners.

Our IT consulting solutions create efficiencies that help our clients deliver more value to their customers while also improving outcomes for their internal teams. A Fortune 500 energy company tasked our AI consultants with developing a cutting-edge Conversational GenAI Chatbot, custom built in Microsoft Azure's cloud. This multi-agentic application provides real-time IT support via a connection to back-end knowledge repositories that empower our chatbot to troubleshoot a wide range of technical IT issues in record time. When the chatbot cannot independently resolve the IT issue, it seamlessly integrates with ServiceNow to create a ticket, ensuring an efficient and timely resolution. While it will likely be several quarters before we see enterprise-wide applications of GenAI, many companies, like our energy client, are implementing targeted AI models that focus on high-impact use cases to improve efficiency, reduce costs, and provide deeper data insights.

As we evolve our business, we are not only upskilling our teams in the latest GenAI applications, but we are also strategically partnering with industry leaders, knowing that these tech partnerships are integral to our continued success. Thus far today I've highlighted projects in which our consulting teams have partnered with Amazon Web Services, Microsoft Azure, and ServiceNow, each of which, amongst other tech innovators, comprise our core group of technology partners. As we enter 2025, I am pleased to welcome one more technology partnership to that list, Workday.

As I noted at the beginning of the call, ASGN signed a definitive agreement to acquire TopBloc, a leading, high-growth, tech-enabled Workday consultancy. While Marie will provide further details on the acquisition financials, I'll focus my commentary on our strategy and market opportunity. Recognizing a growing customer demand for ERP implementations and related services, we identified Workday, a leader in enterprise cloud applications with over 60 percent of the Fortune 500 as customers. This led us to TopBloc, a company purposely built to partner with the Workday platform.

An industry innovator, TopBloc's team of over 500 consultants leverage a proprietary deployment model that accelerates customer time to value. In addition, by increasingly incorporating AI into its offerings, TopBloc improves efficiency for its customers and differentiates its implementation processes. Beyond the initial implementation of Workday, TopBloc also provides post-deployment services that foster long-term customer relationships. With more than 300 Workday installations over the past five years, TopBloc’s consultants are well positioned to gain immediate scale in the ERP market, which Workday has identified as $160 billion in size and growing. We anticipate TopBloc's innovative solutions will seamlessly integrate with our commercial consulting customer base, as well as provide significant opportunities within the federal government sector.

Federal Government Segment – Well Positioned for Government Efficiency

Speaking of our government customers, let's now turn to our Federal Government Segment, whose services include advanced IT solutions for the Department of Defense, the intelligence community, and other critical agencies that support our national security.

The Federal Government Segment win rate remained robust for the fourth quarter at approximately 90 percent for our re-competed contracts. Although revenues fell below expectations, predominantly due to the lower-than-expected software licenses, net new contract awards of $283 million put our book-to-bill at 1.0 times for the quarter and back to our target of 1.1 times on a trailing twelve-month basis. In addition to bookings strength, at year end contract backlog was over $3.1 billion, or a coverage ratio of 2.5 times the segment's trailing twelve-month revenues.

Discussions of backlog, and thus indications of future performance, lead me to a topic gaining a lot of attention of late, that of the new administration's spending initiatives and, in particular, the Department of Government Efficiency or DOGE. DOGE has been tasked with modernizing Federal technology and software, including upgrading network IT systems, ensuring data integrity, and facilitating responsible data collection, all with the end goal of maximizing governmental efficiency and productivity. While it is still early days, we believe that DOGE's priorities could lead to an increased emphasis on our core solutions and capabilities in AI, cybersecurity, and digital modernization services, which comprise the vast majority of our federal government revenues.

Alongside the solutions we offer, the agencies we support are also strongly aligned with the government's budget priorities. Two-thirds of our Federal Government revenues are derived from contracts with the Department of Defense, intelligence agencies, and the Department of Homeland Security. The remaining one-third of revenues come from more high-end IT business operations and modernization services for civilian and state and local agencies. This includes cloud, data management, and cybersecurity services all aimed at automating and modernizing governmental processes. So, let me provide a few examples of contracts we won during the fourth quarter that further underscore our commitment to upgrading and enhancing government IT infrastructure.

For the U.S. Navy, we were awarded additional work on an existing defense and intelligence contract in which our teams are providing data center management to two Navy Installations, one in Norfolk, Virginia and the other in Coronado, California. As part of this new, fixed-price contract, we will support the Navy's secure global public safety network and manage their data center, which provides essential Naval business functions worldwide.

Beyond defense and cybersecurity, we are also seeing sizeable bookings to support healthcare IT modernization. In December, we were awarded our first task order under a four-year prime contract with the Department of Health and Human Services. By providing program and financial management services, we will assist the Advanced Research Projects Agency for Health to address scalability and global supply chain challenges to increase the efficacy and productivity of their future programs.

As we improve efficiency for our government clients, we also continue to invest in our own technological capabilities. For instance, for the past two years, we've been building a differentiated solution at the intersection of AI and cybersecurity. This solution helps organizations identify and prioritize remediation of security vulnerabilities using advanced mathematical AI models that save our clients and our internal cybersecurity team time and money in the protection against cyberattacks.

In addition, during the fourth quarter, we successfully deployed an in-house AI platform that enhances our business development, capture, and proposal workflows. We plan to expand the use of this platform to other operational workflows throughout 2025 in order to drive measurable gains in productivity and quality for our internal teams and our clients.

With that, I'll turn the call over to Marie to discuss the fourth quarter results and our first quarter 2025 guidance.

MARIE L. PERRY
Chief Financial Officer:

Q4 2024 Financial Performance and Q1 2025 Financial Estimates

For the fourth quarter, revenues totaled $985 million, a decrease of 8.3 percent year-over-year, but essentially flat to the third quarter on the same number of billable days.

Revenues from the Commercial Segment were $692.7 million, a decrease of 7.5 percent as compared to the prior year. Assignment revenues totaled $408 million, a decline of 15 percent year-over-year due to continued softness in the more cyclical portions of our commercial business. Revenues for commercial consulting, the largest of our high-margin revenue streams, outpaced our expectations and totaled $284.7 million, up 6.0 percent year-over-year and flat sequentially.

Revenues from our Federal Government Segment were $292.3 million, a decrease of 10.2 percent year-over-year. When we prepared our guidance for the fourth quarter, we anticipated we would have a consistent level of software licenses year-over-year. As Ted noted, license revenues were lower than our expectations by approximately $20 million to $30 million for the quarter. Lower license revenues, as well as the delay of certain research and development projects due to the Continuing Resolution, led to the revenue shortfall for the quarter. Our Commercial Segment, on the other hand, outperformed our expectations.

Turning to margins. Gross margin for the fourth quarter of 2024 was 29.0 percent, an increase of 60 basis points from the fourth quarter of last year and exceeded our expectations.

Gross margin for the Commercial Segment was 32.6 percent, up 50 basis points year-over-year, reflecting a higher mix of consulting revenues as well as margin expansion in these revenues. Gross margin for the Federal Government Segment was 20.5 percent, up 60 basis points year-over-year, primarily due to a higher mix of fixed price and time and materials contracts.

SG&A expense for the quarter was $197.9 million, compared to $203.6 million in the fourth quarter of 2023. SG&A expense also included $1.9 million in acquisition, integration, and strategic planning expenses not included in our guidance estimates.

For the fourth quarter, net income was $42.4 million, Adjusted EBITDA was $109.7 million, and Adjusted EBITDA margin was 11.1 percent. Adjusted EBITDA margins also exceeded our guidance expectations for the quarter due to the outperformance of our Commercial Segment, which resulted in a higher mix of commercial revenues. In addition to this favorable business mix, we saw the expansion of margins within our commercial consulting revenues for the quarter.

At quarter end, cash and cash equivalents were $205.2 million. We had full availability under our $500.0 million senior secured revolver, and our net leverage ratio was 1.86 times.

Free Cash Flow was $88.9 million for the fourth quarter, or a conversion rate of approximately 81 percent of Adjusted EBITDA. In the quarter, we deployed $43.9 million to repurchase 0.5 million shares at an average share price of $90.45.

On a full year-basis, Free Cash Flow totaled $364.7 million, also a conversion rate approximately 81 percent of Adjusted EBITDA. With active share repurchases in the first three quarters of the year, even with a slowdown in Q4 repurchases in advance of the due diligence for the TopBloc acquisition, in 2024 we deployed $327.2 million to repurchase 3.5 million shares at an average share price of $94.06. We have approximately $529 million remaining under our $750 million share repurchase authorization.

Our strong Free Cash Flow provides a strategic advantage that enables ASGN to fund key growth initiatives, opportunistically repurchase shares, and invest in strategic M&A, all while maintaining a healthy balance sheet. By following a disciplined and balanced approach to capital allocation, we can invest in high-return opportunities and prudently manage our leverage, driving sustainable long-term value to our shareholders.

As Ted mentioned earlier, we signed a definitive purchase agreement to acquire TopBloc for $340 million, consisting of 90 percent cash and 10 percent equity. The acquisition, which remains subject to HSR approval, is anticipated to close late in the first quarter. Post close, we anticipate our net leverage ratio will be approximately 2.4 times after borrowing approximately $200 million on the revolver related to the acquisition. With our acquisition of TopBloc, we will begin to allocate Free Cash Flow towards paying down the revolver.

Turning to guidance. Our financial estimates for the first quarter of 2025 are set forth in the earnings release and supplemental materials. These estimates are based on current market conditions and assume 62.0 Billable Days in the first quarter, which is 0.75 days fewer than the year-ago period and 1 day more than the fourth quarter.

Our first quarter guidance incorporates three main considerations. First, while business optimism is improving, we expect market conditions and demand for our services in the first quarter of 2025 will be similar to that of the fourth quarter of 2024. Second, with regards to EBITDA margin, the first quarter typically sees an approximately 100 basis point decrease sequentially related to the annual payroll tax reset. Third, our first quarter guidance does not include a contribution from TopBloc. For the full year 2025, TopBloc is expected to generate approximately $150 million of revenues, which represents year-over-year revenue growth in excess of 20 percent. We anticipate roughly nine months of TopBloc's full-year revenues will be incorporated into our 2025 financials given the timing of the close. TopBloc also anticipates EBITDA margins in the high teens for 2025.

With this background, for Q1 2025, we are estimating: revenues of $950 million to $970 million, net income of $27.8 million to $30.7 million, and Adjusted EBITDA of $91 million to $95 million, and Adjusted EBITDA margin of 9.6 percent to 9.8 percent.

Thank you; I'll now turn the call back over to Ted for closing remarks.

THEODORE S. HANSON
Chief Executive Officer:

Bolstering Our Strong Foundation

As I mentioned at the start of the call, at the beginning of March, our current President Rand Blazer will be transitioning to the role of Executive Vice Chairman. In Rand's place as President we are thrilled to welcome Shiv Iyer, formerly of Accenture.

Over the past 12 years, Rand has played a pivotal role in driving ASGN's impressive growth and transformation. His leadership, in conjunction with our broader executive team, has been key in evolving ASGN from a diversified staffing player to a top-tier provider of higher-end, high-value IT services. Rand has not only spearheaded our go-to-market strategy, but he has helped elevate the quality of our broader leadership team, prioritizing their development and success. As both my long-term colleague and close friend, I am very grateful for Rand's continued involvement with ASGN and for the strong foundation he has helped build for our Company. In Rand's new role, he will advise ASGN on key strategic initiatives while helping ensure a seamless handover in leadership to Shiv.

Shiv brings over two decades of consulting experience to ASGN, having most recently led Accenture's Consulting and Industry X solutions across the Americas. His experience leading large-scale consulting businesses, in combination with his industry and M&A expertise, make him an excellent fit for ASGN as we continue to move up the IT services pyramid. I am confident that Shiv will help propel our Company to new heights, and we are very excited to have him on board. We look forward to having Shiv join us on our first quarter 2025 earnings call in April.

As we wrap up our prepared remarks, I'd like to reflect on some of the most important points we covered today. We are committed to building ASGN for the future and continue to position our business towards higher-end, high-value IT consulting services and solutions. We are achieving our long-term goals through the expansion of our IT consulting revenues, bookings, and margins, the introduction of new leadership as just discussed, and the addition of strategic tuck-in acquisitions, such as TopBloc, whose solutions can be sold across our commercial and government customer base. Additionally, we maintain a robust portfolio of enterprise and federal government clients in six key industries to whom we offer innovative solutions aligned with a demand for cost savings and efficiency. Of note, we demonstrated strength in the TMT vertical throughout 2024, and as we exited the year, we began to see improvements with our Big Banking clients, which are some of the biggest investors in information technology. As business confidence steadily increases, we are certain that we have strategically positioned our business for sustained growth.

Before opening up the call to questions, I'd like to extend our deepest sympathies to our Los Angeles teammates and their families impacted by the recent wildfires. Our thoughts are with all of those impacted, and we are committed to supporting the affected communities during this difficult time. I also want to thank everyone at ASGN for your dedication and hard work this past year. Together, we move forward into the new year with a collective determination to advance ASGN toward even greater success.

Thank you again for joining our fourth quarter and full year 2024 call. Operator, please open the call to questions.